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C O N F I D E N T I A L SECTION 01 OF 03 WARSAW 001205

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [PL](#)
SUBJECT: POLISH OPPOSITION LEADER LAYS OUT PROSPECTIVE
ECONOMIC PROGRAM

REF: WARSAW 1126

Classified By: DCM Cameron Munter, reasons 1.5 (b and d).

[11.](#) (C) Summary: Jan Rokita, the head of Poland's leading opposition party (PO - Platforma Obywatelska/Civic Platform), and the man expected to be the country's next Prime Minister outlined the key planks of his economic policy at a March 1 meeting of the American Chamber of Commerce. Rokita said he wants to reduce the cost of hiring workers by cutting taxes and social payments, completing privatization and deregulating the economy. He also said he would like to reform the budget, cut public sector expenses and close unnecessary government offices. Rokita favors quick adoption of the Euro, and said he would be willing to consider its unilateral adoption to reduce pressure on exporters from the rising Zloty. Companies welcomed the expose, but note Rokita will need the help of his prospective coalition partner, the Law and Justice Party (PiS), with whom PO has policy differences, to realize this ambitious agenda. PiS tends toward statist and regulatory solutions to economic issues. End Summary.

PO (Finally) Unveils a Program:

[12.](#) (U) At a March 1 meeting of the American Chamber of Commerce, Jan Rokita, the leader of the Civic Platform party (PO) and the man expected to be PM in the next government, sketched out three "mile posts" of his economic policy:

- limiting the tax wedge, which limits employment (Taxes, health care and pensions add 43% to wage bills in Poland, one of the highest such "wedges" in the EU);

- deregulation of the economy, including introducing reforms to the legal system to reduce the complexity and cost of doing business; and

- completing the process of privatizing state-owned companies, including selling off the "resztowki" small shares (typically less than 5%) which the State Treasury still owns in privatized firms. He said a PO-led government would not hold on to a so-called "golden share" conferring veto authority over significant business decisions.

[13.](#) (U) Rokita also promised that a PO government will change the operational philosophy of the current government, which first increased public debt and later, in order to pay the bills, raised taxes and the cost of business. Rokita stressed that one of his top goals will be to cut public spending. He called for the simplification of the entire tax system, beginning with the step-by-step introduction of a flat Personal Income Tax (PIT) followed eventually by the introduction of a lower, unified VAT rate.

Health:

[14.](#) (U) Rokita said that his government would oppose increasing health taxes currently levied on salaries (9% in 2005), but would not reduce them. His government would first focus on bringing better order to the current confused system. After a couple of years, the government could consider bringing new reforms to the sector, in particular those which would base it more on the operations of the free market. Rokita said that the country needs some time to recover from three separate health reforms enacted by the SLD government over the last two years.

Euro Adoption:

[15.](#) (U) Perhaps unintentionally, the biggest news from the event concerned Poland's adoption of the Euro. Rokita forecast that public finance reforms and budget cuts could lead to further appreciation of the zloty. To counter the negative effect this would have on exporters, Poland may adopt a fixed exchange rate, most likely by unilaterally

adopting the Euro. Most local economists have already largely dismissed such an idea, which they believe would leave the Zloty vulnerable to attack in the lead up to implementation.

Cooperation with PiS:

16. (U) Rokita was asked about the prospects for working together in a coalition government with the other leading opposition party, the Law and Justice Party (PiS), which has at times argued for a strong role of the state in the economy. PO and PiS have also differed publicly on tax policy, privatization and Euro entry. Rokita said that PiS is a responsible partner on public finance issues. He also stressed, however, that the prime minister would be the prime determiner of economic policy.

PO Experts Still Working on Details:

17. (C) A group of economists preparing PO's economic program recently provided more details to Econoffs, while stressing that "nothing" is fixed yet, as PO advisers are still preparing policy positions on many issues. The two most surprising elements related to privatization and investments. On privatization, they criticized the current government for not having a more coherent plan for privatization, but selling 'anything and everything' without any regard for sequence. The economists argued the next government will want to first come up with a broader strategy, including determining whether the government will want to retain influence in some key sectors, before proceeding with the sale of large, complicated companies like the national gas company, refineries and electricity plants. They expect a PO government will pursue full privatization (i.e., 100% sale) of state-owned companies, rather than the current government's practice of selling smaller shares (e.g., 20-30%). PO criticizes these partial sales, noting they may complicate future sales, and also leave open the possibility that the government can appoint members of company boards, interjecting politics into business decisions.

8.(C) On investments, they expressed disappointment that foreign investors have not responded more quickly to Poland's EU entry. They argued that the new government will have to look at providing better incentives to attract companies (we suggested clearer tax and regulatory policies would be more useful, and contested the assertion that foreign investors have been slow over the last 18 months).

19. (C) The economists stressed the importance of cutting expenditures, particularly on social policies, particularly by better targeting expenditures to truly needy recipients. They singled out the farmers' pension system in particular, arguing that the current government had failed largely because it felt constrained for ideological reasons in arguing that "rich" farmers should be taxed rather than receive extensive benefits. The next government will not suffer the same handicap, and intends to pursue a simpler reform to cut expenditures in this area. They also believe a number of reforms in how the budget is drafted can reduce spending and improve monitoring. In January, Rokita publicly called for a complete overhaul of the budget formulation process, giving the PM more direct control over spending decisions. He also called for closing a number of government offices and merging some ministries.

110. (C) Tax policy, including the introduction of a flat tax, is another perennial favorite. The economists argued that introducing flat PIT and CIT would reduce compliance costs for companies, while also making Poland more competitive in attracting foreign investment. Finally, they stressed the importance of reforming the legal system, although they are very aware of how difficult it will be in Poland to overcome the opposition of entrenched lawyers and judges.

Market Reaction:

11. (U) Markets are generally encouraged by Rokita's comments, which they interpret as favoring adopting the Euro sooner rather than later, although they have noted tax cuts would make quick adoption of the Euro more difficult because that would require lower budget deficits. There had been some doubt about what the new government would do, as various party officials in the two leading opposition parties have issued contradictory statements over the last month, including one PiS comment questioning whether Poland should adopt the Euro at all. On the whole, Rokita's comments were overshadowed by the news that PM Belka will make a statement on March 3, possibly regarding plans for June elections (reftel).

Comment:

12. (C) The private sector has been assuming for a year now that PO would lead the next government, and that it would introduce more business-friendly legislation than the current government. Companies have clung to the assumption that PO would be good for business despite the lack of any evident economic program, or ongoing policy coordination with PiS, with which it will almost certainly have to include as a coalition partner, and other opposition parties on important issues like adoption of the Euro. Meanwhile, private discussions with PO officials and MP's have suggested that the party was long on generalities, but desperately short on specific policy suggestions. One economist from the Adam Smith think tank said publicly that he "had not seen any reasonable solutions coming from either" PO or PiS. Rokita's solid performance at the AmCham helped reassure companies that PO is now developing a coherent economic program, even if individual policies are still clearly moving targets. With a general election possible as soon as June, it is high time that PO begin to present more specific policies, even if doing so is likely to generate more controversy.

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